

# AUDITING PROCEDURES REPORT

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|   |                                   |   |                       |
|---|-----------------------------------|---|-----------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other |                                   | Local Government Name<br><b>Village of Lyons</b>                | County<br><b>onia</b> |
| Audit Date<br><b>2/28/2005</b>  | Opinion Date<br><b>11/23/2005</b> | Date Accountant Report Submitted to State:<br><b>12/19/2005</b> |                       |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | <b>X</b> |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | <b>X</b>     |
| Single Audit Reports (ASLGU).   |          |                 | <b>X</b>     |

|  |                            |                    |                     |
|--|----------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) <b>Richard L. Baldemann, CPA</b> |                            |                    |                     |
| Street Address<br><b>1197 Wild Cherry Drive</b>                          | City<br><b>Williamston</b> | State<br><b>MI</b> | ZIP<br><b>48895</b> |
| Accountant Signature<br><i>Richard L. Baldemann</i>                      |                            |                    |                     |



# *Village of Lyons*

*212 Water Street, PO Box 175  
Lyons, Michigan 48851*

## **PRESIDENT**

Bernard Russell

## **COUNCIL MEMBERS**

Roslyn Ferris  
Stanley Nave  
Ann Randall  
James Shattuck  
Paul Tunell  
Carrie Webster

## **CLERK**

Jill Stilson

## **TREASURER**

Linda Rairigh



# *Village of Lyons*

Ionia County  
February 28, 2005  
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Richard L. Baldermann

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

November 23, 2005

Lyons Village Council  
212 Water Street  
P.O. Box 175  
Lyons, Michigan 48851-0175

Dear Council Members:

I have audited the accompanying basic financial statements of the Village of Lyons as of February 28, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Village's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Lyons Village as of February 28, 2005 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The required supplemental information, budgetary comparison schedules, and combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Richard L. Baldermann, CPA

**VILLAGE OF LYONS**  
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**Management's Discussion and Analysis**

**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provides information about the activities of the Village as a whole and presents a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

**The Village as a Whole**

The Village's combined net assets increased 1.6% from a year ago—increasing from \$2,494,789 to \$2,535,845. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced a decrease of approximately \$12,355 during the year (2.1% decrease). The business-type activities experienced a \$53,411 increase in net assets, primarily as a result of new water and sewer rates established in 2005 that would have been ready for adjustments in prior years. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date (the prior year is not available in this year of implementation of GASB 34).

|                            | <u>Governmental<br/>Activities</u> |              | <u>Business-Type<br/>Activities</u> |                | <u>Total</u>   |                |
|----------------------------|------------------------------------|--------------|-------------------------------------|----------------|----------------|----------------|
|                            | <u>2004</u>                        | <u>2005</u>  | <u>2004</u>                         | <u>2005</u>    | <u>2004</u>    | <u>2005</u>    |
| Current Assets             |                                    | \$294        |                                     | \$ 297         |                | \$ 591         |
| Noncurrent Assets          |                                    | <u>281</u>   |                                     | <u>2,305</u>   |                | <u>2,586</u>   |
| Total Assets               |                                    | <u>\$575</u> |                                     | <u>\$2,602</u> |                | <u>\$3,177</u> |
| Long Term Debt Outstanding |                                    |              |                                     | \$604          |                | \$604          |
| Other Liabilities          |                                    | <u>\$ 4</u>  |                                     | <u>33</u>      |                | <u>37</u>      |
| Total Liabilities          |                                    | <u>4</u>     |                                     | <u>33</u>      |                | <u>641</u>     |
| Net Assets                 |                                    |              |                                     |                |                |                |
| Invested in Capital Assets |                                    |              |                                     |                |                |                |
| Net of Debt                |                                    | 281          |                                     | 1,670          |                | 1,951          |
| Restricted                 |                                    | 104          |                                     | 31             |                | 135            |
| Unrestricted               |                                    | <u>186</u>   |                                     | <u>264</u>     |                | <u>450</u>     |
| Total Net Assets           | <u>\$583</u>                       | <u>\$571</u> | <u>\$1,911</u>                      | <u>\$1,965</u> | <u>\$2,495</u> | <u>\$2,536</u> |

Unrestricted net assets—the part of net assets that can be used to finance day to day operations, decreased by \$12,000 for the governmental activities. This represents a decrease of approximately 6.5%. The current level of unrestricted net assets for our governmental activities is \$185.863, or about 58% of expenditures.

## Management's Discussion and Analysis

The following table shows the changes of the net assets (in thousands of dollars) as of the current date (the prior year is not available in this year of implementation of GASB 34):

|  | Governmental<br>Activities |        | Business Type<br>Activities |       | Total |       |
|--|----------------------------|--------|-----------------------------|-------|-------|-------|
|  | 2004                       | 2005   | 2004                        | 2005  | 2004  | 2005  |
| Program Revenues                           |                            |        |                             |       |       |       |
| Charges for Services                       |                            | 30.3   |                             | 281.3 |       | 311.6 |
| Operating Grants and Contributions         |                            | 77.8   |                             |       |       | 77.8  |
| General Revenues                           |                            |        |                             |       |       | -     |
| Property Taxes levied for general purposes |                            | 90.6   |                             |       |       | 90.6  |
| Proportionate Share Revenue                |                            | 86.2   |                             |       |       | 86.2  |
| Licenses and Permits                       |                            | .2     |                             |       |       | .2    |
| Miscellaneous                              |                            | 9.7    |                             | 4.7   |       | 14.4  |
| Unrestricted Investment Earnings           |                            | 6.1    |                             | 7.6   |       | 13.7  |
| Transfers and Other Revenue                |                            | 5.0    |                             | (5.0) |       | 0     |
| Total Revenues                             |                            | 306.0  |                             | 288.5 |       | 594.5 |
| Program Expenses                           |                            |        |                             |       |       |       |
| General Government                         |                            | 179.8  |                             |       |       | 179.8 |
| Public Safety                              |                            | 1.6    |                             |       |       | 1.6   |
| Public Works                               |                            | 110.3  |                             |       |       | 110.3 |
| Culture and Recreation                     |                            | .8     |                             |       |       | .8    |
| Health and Welfare                         |                            | 7.4    |                             |       |       | 7.4   |
| Other                                      |                            | 18.4   |                             |       |       | 18.4  |
| Interest on Long-Term Debt                 |                            |        |                             | 36.9  |       | 36.9  |
| Water and Sewer                            |                            |        |                             | 198.2 |       | 198.2 |
| Total Expenses                             |                            | 318.3  |                             | 235.1 |       | 553.4 |
| Change in Net Assets                       |                            | (12.3) |                             | 53.4  |       | 41.1  |

### Business – Type Activities

The Village's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 43% of Village residents, which comes from the Village water system. We provide sewage treatment to approximately 47% of Village residents, through the Sewer Maintenance system. Close budget monitoring throughout the year allowed us to delay a needed water rate increase to 2005.

### The Village's Funds

The Village major fund presentation begins on page 6 following the entity wide financial statements. The fund financial statements provide detail information about the most significant fund, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Village's major fund for 2005 includes the General Fund.

## **Management's Discussion and Analysis**

### **General Fund Budgetary Highlights**

Over the course of the year, the Village Council amended the budget to take into account events during the year. The most significant change was to reflect the new chart of accounts put into effect. The amended budget expenditures exceeded revenue by \$44,723. The Village overall stayed below the expenditure budget and exceeded the revenue budget thereby allowing expenditures to exceed revenue by only \$16,977. The General Fund's fund balance decreased from \$202,795.00 a year ago to \$185,818.00 at February 28, 2005.

### **Capital Asset and Debt Administration**

At the end of 2005, the Village had \$2,554,661 invested in a broad range of capital assets, including buildings, land, and water and sewer lines. In addition, the Village has invested significantly in roads within the Village.

### **Economic Factors and Next Year's Budgets and Rates**

Because of the impact of Proposal A the Village needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Village will grow less than by inflation, before considering new property additions.

### **Contacting the Village's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Village of Lyons  
Government Wide Statement of Net Assets  
February 28, 2005

Exhibit 1

|  | Primary Government                 |                                |                     |
|--|------------------------------------|--------------------------------|---------------------|
|  | Governmental<br>Type<br>Activities | Business<br>Type<br>Activities | Total               |
| <b>Assets</b>                                      |                                    |                                |                     |
| <b>Current Assets</b>                              |                                    |                                |                     |
| Cash (Note 4)                                      | \$ 232,912                         | \$ 269,869                     | \$ 502,781          |
| Taxes Receivable-Delinquent                        | 15,116                             |                                | 15,116              |
| Due From State                                     | 28,973                             |                                | 28,973              |
| Receivables--Net                                   | 17,383                             | 27,284                         | 44,668              |
| <b>Total Current Assets</b>                        | <u>294,384</u>                     | <u>297,153</u>                 | <u>591,537</u>      |
| <b>Noncurrent Assets</b>                           |                                    |                                |                     |
| Restricted Cash                                    |                                    | 30,850                         | 30,850              |
| Capital assets (Note 5)                            | 280,693                            | 2,273,968                      | 2,554,661           |
| <b>Total assets</b>                                | <u>\$ 575,077</u>                  | <u>\$ 2,601,972</u>            | <u>\$ 3,177,049</u> |
| <b>Liabilities</b>                                 |                                    |                                |                     |
| <b>Current Liabilities</b>                         |                                    |                                |                     |
| Accounts payable                                   | \$ 4,097                           | \$ 3,139                       | \$ 7,236            |
| Current Portion of Noncurrent Liabilities          |                                    | 32,000                         | 32,000              |
| Interest Payable                                   |                                    | 9,713                          | 9,713               |
| <b>Total Current Liabilities</b>                   | <u>4,097</u>                       | <u>44,851</u>                  | <u>48,949</u>       |
| <b>Noncurrent Liabilities</b>                      |                                    |                                |                     |
| Deposits Payable                                   |                                    | 20,255                         | 20,255              |
| Bonds, Notes and Loans Payable                     |                                    | 572,000                        | 572,000             |
| <b>Total liabilities</b>                           | <u>4,097</u>                       | <u>637,106</u>                 | <u>641,204</u>      |
| <b>NET ASSETS</b>                                  |                                    |                                |                     |
| Invested in Capital Assets--Net of<br>Related Debt | 280,693                            | 1,669,968                      | 1,950,661           |
| Restricted   | 104,424                            | 30,850                         | 135,274             |
| Unrestricted                                       | 185,863                            | 264,047                        | 449,910             |
| <b>Total Net Assets</b>                            | <u>\$ 570,979</u>                  | <u>\$ 1,964,865</u>            | <u>\$ 2,535,845</u> |

The Notes to Financial Statements are an Integral Part of this Statement.



Exhibit 2

Village of Lyons  
Government Wide Statement of Activities  
For the Year Ended February 28, 2005

| Functions/Programs                                  | Program Revenues |                         |  | Net (Expense) Revenue and<br>Changes in Net Assets |                             |              |
|---|------------------|-------------------------|--|--|-----------------------------|--------------|
|   | Expenses         | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Primary Government                                 |                             | Total        |
|   |                  |                         |  | Governmental<br>Activities                         | Business-Type<br>Activities |              |
| Primary Government                                  |                  |                         |  |  |                             |              |
| General Government                                  | \$ 179,772       |                         |  | \$ (179,772)                                       |                             | \$ (179,772) |
| Public Safety                                       | 1,639            |                         |  | (1,639)  |                             | (1,639)      |
| Public Works  | 110,325          | 30,335                  | 77,826                                   | (2,164)  |                             | (2,164)      |
| Health and Welfare                                  | 7,367            |                         |  | (7,367)  |                             | (7,367)      |
| Culture and Recreation                              | 804              |                         |  | (804)  |                             | (804)        |
| Other Functions                                     | 18,431           |                         |  | (18,431)   |                             | (18,431)     |
| Total Governmental Activities                       | 318,338          | 30,335                  | 77,826                                   | (210,177)  |                             | (210,177)    |
| Business-Type Activities                            |                  |                         |  |  |                             |              |
| Water and Sewer                                     | 235,129          | 281,258                 |  |  | 46,128                      | 46,128       |
| Total Business-Type Activities                      | 235,129          | 281,258                 |  |  | 46,128                      | 46,128       |
| Total Primary Government                            | \$ 553,467       | \$ 311,592              | \$ 77,826                                | (210,177)  | 46,128                      | (164,049)    |
| General Revenues                                    |                  |                         |  |  |                             |              |
| Property Taxes                                      |                  |                         |  | 90,647   |                             | 90,647       |
| State Grants  |                  |                         |  | 86,179   |                             | 86,179       |
| Unrestricted Investment Earnings                    |                  |                         |  | 6,126  | 7,592                       | 13,717       |
| Licenses and Permits                                |                  |                         |  | 200  |                             | 200          |
| Other Revenue                                       |                  |                         |  | 9,671  | 4,691                       | 14,362       |
| Transfers   |                  |                         |  | 5,000  | (5,000)                     | -            |
| Total General Revenues--Special Items and Transfers |                  |                         |  | 197,822  | 7,283                       | 205,105      |
| Change in Net Assets                                |                  |                         |  | (12,355)   | 53,411                      | 41,056       |
| Net Assets--Beginning                               |                  |                         |  | 583,334  | 1,911,455                   | 2,494,789    |
| Net Assets--Ending                                  |                  |                         |  | \$ 570,979   | \$ 1,964,865                | \$2,535,845  |

The Notes to Financial Statements are an integral part of this statement.

Village of Lyons  
Balance Sheet  
Governmental Funds  
February 28, 2005

Exhibit 3

|  | General<br>Fund   | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                              |                   |                                |                                |
| Cash                                       | \$ 141,823        | \$ 91,089                      | \$ 232,912                     |
| Taxes Receivable                           | 15,116            |                                | 15,116                         |
| Due From State                             | 15,593            | 13,380                         | 28,973                         |
| Accounts Receivable                        | 17,383            |                                | 17,383                         |
| <b>Total Assets</b>                        | <u>\$ 189,915</u> | <u>\$ 104,468</u>              | <u>\$ 294,384</u>              |
| <b>Liabilities</b>                         |                   |                                |                                |
| Accounts Payable                           | \$ 4,098          | \$ (0)                         | \$ 4,097                       |
| <b>Total Liabilities</b>                   | <u>4,098</u>      | <u>(0)</u>                     | <u>4,097</u>                   |
| <b>Fund Balances</b>                       |                   |                                |                                |
| Fund Balance                               | <u>185,818</u>    | <u>104,468</u>                 | <u>290,286</u>                 |
| <b>Total Liabilities and Fund Balances</b> | <u>\$ 189,915</u> | <u>\$ 104,468</u>              | <u>\$ 294,384</u>              |

Amounts reported for governmental activities in the statement of net assets are different because:

|   |                   |
|---|-------------------|
| Fund Balance  | \$ 290,286        |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | 280,693           |
| <b>Net Assets of Governmental Activities</b>  | <u>\$ 570,979</u> |

The Notes to Financial Statements are an Integral Part of this Statement.

Village of Lyons  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended February 28, 2005

Exhibit 4

|   | General<br>Fund   | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|--------------------------------|--------------------------------|
| Revenues  |                   |                                |                                |
| Taxes   | \$ 90,647         |                                | \$ 90,647                      |
| Licenses and Permits                                | 200               |                                | 200                            |
| State Grants  | 86,179            | \$ 77,826                      | 164,005                        |
| Interest and Rentals                                | 35,001            | 1,460                          | 36,460                         |
| Other Revenue                                       | 6,267             | 3,404                          | 9,671                          |
| <b>TOTAL REVENUES</b>                               | <b>218,294</b>    | <b>82,689</b>                  | <b>300,983</b>                 |
| Expenditures  |                   |                                |                                |
| General Government                                  | 165,257           |                                | 165,257                        |
| Public Safety                                       | 1,639             |                                | 1,639                          |
| Public Works  |                   | 101,219                        | 101,219                        |
| Health and Welfare                                  | 7,367             |                                | 7,367                          |
| Culture and Recreation                              | 804               |                                | 804                            |
| Other Functions                                     | 18,431            |                                | 18,431                         |
| Capital Outlay                                      | 46,773            |                                | 46,773                         |
| <b>Total Expenditures</b>                           | <b>240,271</b>    | <b>101,219</b>                 | <b>341,490</b>                 |
| Excess (deficiency) of Revenues<br>vs. Expenditures | (21,977)          | (18,530)                       | (40,507)                       |
| Other Financing Sources (Uses)                      |                   |                                |                                |
| Transfers In (out)                                  | 5,000             |                                | 5,000                          |
| <b>Total Other Financing Sources (Uses)</b>         | <b>5,000</b>      | <b>-</b>                       | <b>5,000</b>                   |
| <b>Net Change in Fund Balances</b>                  | <b>(16,977)</b>   | <b>(18,530)</b>                | <b>(35,507)</b>                |
| Fund Balances - Beginning:                          | 202,795           | 122,999                        | 325,794                        |
| Fund Balances - Ending:                             | <u>\$ 185,818</u> | <u>\$ 104,469</u>              | <u>\$ 290,287</u>              |

Amounts reported for governmental activities in the statement of activities are different because:

|  |                  |
|--|------------------|
| Net Change in Fund Balance   | \$ 35,507        |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation in the current period. | 23,152           |
| Change in Net Assets of Governmental Activities  | <u>\$ 12,355</u> |

The Notes to Financial Statements are an Integral Part of this Statement.

Village of Lyons  
Statement of Net Assets  
Proprietary Funds  
February 28, 2005

Exhibit 5

|                                      | Enterprise Funds    |                   | Total               |
|--------------------------------------|---------------------|-------------------|---------------------|
|                                      | Water<br>Fund       | Sewer<br>Fund     | Enterprise<br>Funds |
| Assets                               |                     |                   |                     |
| Current Assets                       |                     |                   |                     |
| Cash                                 | \$ 62,799           | \$ 207,070        | \$ 269,869          |
| Receivables--Net                     | 18,204              | 9,080             | 27,284              |
| Total Current Assets                 |                     |                   |                     |
| Noncurrent Assets                    |                     |                   |                     |
| Restricted Cash                      | 30,850              |                   | 30,850              |
| Capital Assets-Net                   | 2,059,371           | 214,597           | 2,273,968           |
| Total Assets                         | <u>2,171,224</u>    | <u>430,748</u>    | <u>2,601,972</u>    |
| Liabilities                          |                     |                   |                     |
| Current Liabilities                  |                     |                   |                     |
| Accounts Payable                     | 1,755               | 1,384             | 3,139               |
| Current Portion of Noncurrent Liabil | 32,000              |                   | 32,000              |
| Interest Payable                     | 9,713               |                   | 9,713               |
| Total Current Liabilities            |                     |                   |                     |
| Noncurrent Liabilities               |                     |                   |                     |
| Deposits Payable                     | 10,546              | 9,709             | 20,255              |
| Bonds, Notes and Loans Payable       | 572,000             |                   | 572,000             |
| Total Liabilities                    | <u>626,013</u>      | <u>11,093</u>     | <u>637,106</u>      |
| Net Assets                           |                     |                   |                     |
| Invested in Capital Assets--Net of   |                     |                   |                     |
| Related Debt                         | 1,455,371           | 214,597           | 1,669,968           |
| Restricted for Debt Service          | 30,850              |                   | 30,850              |
| Unrestricted                         | 58,989              | 205,058           | 264,047             |
| Total Net Assets                     | <u>\$ 1,545,211</u> | <u>\$ 419,655</u> | <u>\$ 1,964,865</u> |

The Notes to Financial Statements are an Integral Part of this Statement.

Village of Lyons  
Statement of Revenue, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended February 28, 2005

Exhibit 6

|   | Enterprise Funds    |                   | Total               |
|---|---------------------|-------------------|---------------------|
|   | Water<br>Fund       | Sewer<br>Fund     | Enterprise<br>Funds |
| Operating Revenue                       |                     |                   |                     |
| Permits and Fees                        | \$ 2,441            | \$ 2,081          | \$ 4,522            |
| Charges for Services                    | 159,257             | 86,868            | 246,125             |
| Delinquent Charges for Services         | 29,172              | 1,439             | 30,611              |
| Total Operating Revenue                 | <u>190,870</u>      | <u>90,387</u>     | <u>281,258</u>      |
| Operating Expenses                      |                     |                   |                     |
| Office Expenses                         | 41,695              | 13,565            | 55,260              |
| Contracted Services                     | 13,500              | 11,545            | 25,045              |
| Repair & Maintenance                    | 38,744              | 40,011            | 78,755              |
| Depreciation                            | 25,868              | 13,285            | 39,153              |
| Total Operating Expenses                | <u>119,808</u>      | <u>78,406</u>     | <u>198,213</u>      |
| Operating Income (Loss)                 | <u>71,063</u>       | <u>11,982</u>     | <u>83,044</u>       |
| Other Revenue (Expenses)                |                     |                   |                     |
| Interest on Long Term Debt              | (36,916)            |                   | (36,916)            |
| Rental Earned                           | 3,638               | 937               | 4,575               |
| Interest Earned                         | 2,323               | 5,269             | 7,592               |
| Other Revenue                           | 116                 |                   | 116                 |
| Total Other Revenue (Expenses)          | <u>(30,840)</u>     | <u>6,207</u>      | <u>(24,634)</u>     |
| Income (Loss) Before Transfers In (Out) | <u>40,222</u>       | <u>18,188</u>     | <u>58,411</u>       |
| Transfers In (Out)                      |                     | <u>(5,000)</u>    | <u>(5,000)</u>      |
| Change in Net Assets                    | <u>40,222</u>       | <u>13,188</u>     | <u>53,411</u>       |
| Total Net Assets--Beginning             |                     |                   |                     |
| Restated                                | 1,504,988           | 406,466           | 1,911,455           |
| Total Net Assets--Ending                | <u>\$ 1,545,211</u> | <u>\$ 419,655</u> | <u>\$ 1,964,865</u> |

The Notes to the Financial Statements are an Integral Part of This Statement

Village of Lyons  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended February 28, 2005

EXHIBIT 7

|   | Enterprise Funds |               |
|---|------------------|---------------|
|   | Water<br>Fund    | Sewer<br>Fund |
| Cash Flows From Operating Activities  |                  |               |
| Receipts from Customers   | \$ 192,218       | \$ 90,610     |
| Payments to Employees   | (25,258)         | (15,574)      |
| Payments to Vendors   | (67,000)         | (49,238)      |
| Net Cash Provided by Operating Activities                                       | 99,960           | 25,798        |
| Cash Flows From Non Capital Financing Activities                                |                  |               |
| Transfers   |                  | (5,000)       |
| Net Cash Provided by Non Capital Financing Activities                           |                  | (5,000)       |
| Cash Flows From Capital and Related Financing Activities                        |                  |               |
| Principal Paid on Capital Debt  | (31,000)         |               |
| Interest Paid on Capital Debt   | (34,112)         |               |
| Net Cash Provided by Capital and Related Financing Activities                   | (65,112)         |               |
| Cash Flows From Investing Activities  |                  |               |
| Interest and Dividends  | 6,076            | 6,207         |
| Net Cash Provided by Investing Activities                                       | 6,076            | 6,207         |
| Net Increase (Decrease) in Cash and Cash Equivalents                            | 40,925           | 27,005        |
| Cash and Cash Equivalents at Beginning of Year                                  | 52,725           | 180,065       |
| Cash and Cash Equivalents at End of Year  | \$ 93,650        | \$ 207,070    |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities |                  |               |
| Operating Income (Loss)   | \$ 71,063        | \$ 11,982     |
| Adjustments to Reconcile Operating Income to Net Cash Provided (Used)           |                  |               |
| by Operating Activities   |                  |               |
| Depreciation Expense  | 25,868           | 13,285        |
| Change in Assets and Liabilities  |                  |               |
| Decrease (Increase) in Receivables  | (1,178)          | 12            |
| Increase (Decrease) in Accounts Payable   | (26,344)         | 520           |
| Net Cash Provided by Operating Activities                                       | \$ 69,408        | \$ 25,798     |

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LYONS  
NOTES TO THE FINANCIAL STATEMENTS  
February 28, 2005

**NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Village of Lyons conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Lyons:

**A. Accounting And Reporting Change**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Village of Lyons has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements).

**B. Reporting Entity**

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity.

The Village of Lyons is located in Ionia County and covers an area of one square mile. The Village provides services to its 726 residents in many areas including fire protection, community enrichment and development, and human services. The Village is a general law village governed by a six-member council elected by the citizens of the Village of Lyons. The Village Council consists of the president and six council members. The accompanying financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable. Based on the criteria established by the Governmental Accounting Standards Board (GASB), the Village of Lyons has no component units.

**Related Organizations**—The Village of Lyons has entered a *Fire Protection Agreement* with Lyons Township, Muir Village and Pewamo Village. The primary provisions of the agreement include:

- Lyons Township will purchase the necessary fire fighting equipment and operating supplies;
- Lyons Township is to pay the firefighters;
- The villages have control of fire trucks and equipment
- Lyons Township will insurance for the equipment, liability insurance and workers compensation insurance, as well as the insurance for the personnel of the department;
- Lyons Township will pay all equipment operating costs; and
- Lyons Village will supply housing for the trucks and equipment in the village and maintain the building.

**C. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**D. Fund Financial Statements**

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**E. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The *government-wide financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

VILLAGE OF LYONS  
NOTES TO THE FINANCIAL STATEMENTS  
February 28, 2005

**NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**F. Measurement Focus, Basis of Accounting and Financial Statement Presentation** (continued)

*Governmental fund financial statements* are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Property taxes and state-shared revenue are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Village. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property Taxes--The Village property tax is levied and collectible on July 1 on the taxable valuation of property located in the Village as of the preceding December 31st. Taxes are returned delinquent to the County Treasurer on September 15. It is the Village's policy to recognize revenues in the current year when they are made available for the financing of Village operations.

The 2004 taxable value of the Village of Lyons amounted to \$9,037,562, on which ad valorem taxes of 12 mills were levied for Village operating purposes. The 2004 current tax levied included \$84,231 for village operations. The delinquent real taxes totaling \$14,983 for the Village are recorded as Taxes Receivable-Delinquent.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes, State and Federal aid, and charges for services to provide for the administration and operation of general village departments.

The Village reports the following major proprietary funds:

The Water Fund accounts for the activities of the water distribution system.

The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the Village reports the following fund types:

Special Revenue Funds are used to account for specific revenue (other than expendable trusts or major capital projects) derived from State and Federal grants, General Fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Operating expenses for proprietary funds include the cost services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.



VILLAGE OF LYONS  
NOTES TO THE FINANCIAL STATEMENTS  
February 28, 2005

**NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**G. Assets, Liabilities, and Net Assets or Equity**

Bank Deposits--Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables--In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." All property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on September 15th, at which time penalties and interest are assessed at the County.

Capital Assets--Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Retroactive reporting of infrastructure assets is not required for units of government the size of the Village.

Property, buildings and equipment is depreciated using the straight-line method over the following useful lives:

|                                |                 |
|--------------------------------|-----------------|
| Buildings                      | 30 to 50 years  |
| Vehicles and Grounds Equipment | 5 to 30 years   |
| Office Equipment               | 5 years         |
| Computer Equipment             | 5 years         |
| Infrastructure                 | 30 to 100 years |

Fund Equity--In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**H. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 2--RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Amounts reported for governmental activities in the statement of net assets are different than those in the governmental fund balance sheet because:

|   |                  |
|---|------------------|
| Fund Balance  | \$290,286        |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | <u>280,693</u>   |
| Net Assets of Governmental Activities   | <u>\$570,979</u> |

Amounts reported for governmental activities in the statement of activities are different than those in the fund statement of revenue and expenditures because:

|  |                 |
|--|-----------------|
| Net Change in Fund Balance   | \$35,507        |
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. This is the amount by which capital outlays exceeded depreciation in the current period. | <u>23,152</u>   |
| Change in Net Assets of Governmental Activities  | <u>\$12,355</u> |

VILLAGE OF LYONS  
NOTES TO THE FINANCIAL STATEMENTS  
February 28, 2005

**NOTE 3--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budget Information**

The annual budget is prepared by the Village's management and adopted by the Council. Amendments to the budget have not been made by the Council. The annual operating budget has been prepared on a basis of accounting consistent with accounting principles generally accepted in the United States of America and at the department/activity level. Unexpended appropriations lapse at year-end.

**Excess of Expenditures Over Appropriations in Budgeted Funds**

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Village's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a department/activity basis. During the fiscal year ended February 28, 2005, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

|                          | <u>Budgeted Amounts</u> |              | <u>Actual</u>  | <u>Favorable</u>     |
|--------------------------|-------------------------|--------------|----------------|----------------------|
|                          | <u>Original</u>         | <u>Final</u> | <u>Amounts</u> | <u>(Unfavorable)</u> |
| <b>General Fund</b>      |                         |              |                |                      |
| General Government       |                         |              |                |                      |
| Village Council          | 9,700                   | 25,820       | 30,061         | (4,241)              |
| Clerk                    | 3,400                   | 32,215       | 36,507         | (4,292)              |
| Treasurer                | 6,300                   | 8,097        | 8,536          | (439)                |
| Ambulance                | 2,500                   | 6,550        | 7,367          | (817)                |
| Other Functions          |                         |              |                |                      |
| Retirement               |                         |              | 5,117          | (5,117)              |
| Capital Outlay           | 16,100                  | 46,200       | 46,773         | (573)                |
| <b>Local Street Fund</b> |                         |              |                |                      |
| Public Works             |                         |              |                |                      |
| Street Department        |                         |              |                |                      |
| Road Maintenance         | 36,500                  | 36,500       | 39,783         | (3,283)              |

**NOTE 4--CASH**

Deposits are carried at cost. Deposits of the village are made in banks in the name of the Village of Lyons Treasurer. Michigan Compiled Laws, Section 124.91, authorizes the village treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. The Village's deposits are in accordance with statutory authority.

Governmental Accounting Standards Board (GASB) Statement No. 3, risk disclosures for the Village's cash deposits, are as follows:

| <u>Deposits</u> | <u>Bank</u>       | <u>Carrying</u>   |
|-----------------|-------------------|-------------------|
|                 | <u>Balance</u>    | <u>Amount</u>     |
| Insured (FDIC)  | \$173,396         | \$173,396         |
| Uninsured       | 375,241           | 360,135           |
| Total Deposits  | <u>\$ 548,637</u> | <u>\$ 533,531</u> |

VILLAGE OF LYONS  
NOTES TO THE FINANCIAL STATEMENTS  
February 28, 2005

**NOTE 5--CAPITAL ASSETS**

Capital asset activity of the primary government for the current year was as follows:

| <b>Governmental Activities</b>       | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Deductions</b> | <b>Ending<br/>Balance</b> |
|--------------------------------------|------------------------------|------------------|-------------------|---------------------------|
| Capital Assets Not Being Depreciated | <u>\$ 34,710</u>             | <u>\$</u>        | <u></u>           | <u>\$ 34,710</u>          |
| Land                                 |                              |                  |                   |                           |
| Subtotal                             | <u>34,710</u>                | <u></u>          | <u></u>           | <u>34,710</u>             |
| Capital Assets Being Depreciated     |                              |                  |                   |                           |
| Buildings and Improvements           | 288,680                      | 19,556           |                   | 308,236                   |
| Office Equipment                     | 16,192                       | 1,514            |                   | 17,706                    |
| DPW Equipment                        | 222,795                      | 24,329           |                   | 247,124                   |
| Infrastructure                       | <u>910,552</u>               | <u></u>          | <u></u>           | <u>910,552</u>            |
| Subtotal                             | <u>1,438,219</u>             | <u>45,399</u>    | <u></u>           | <u>1,483,618</u>          |
| Less Accumulated Depreciation for    |                              |                  |                   |                           |
| Buildings and Improvements           | 79,368                       | 7,234            |                   | 86,602                    |
| Office Equipment                     | 5,393                        | 1,246            |                   | 6,639                     |
| DPW Equipment                        | 178,034                      | 6,035            |                   | 184,069                   |
| Infrastructure                       | <u>346,010</u>               | <u>9,105</u>     | <u></u>           | <u>355,115</u>            |
| Subtotal                             | <u>608,805</u>               | <u>23,620</u>    | <u></u>           | <u>632,425</u>            |
| Net Capital Assets Being Depreciated | <u>829,414</u>               | <u>45,399</u>    | <u>23,620</u>     | <u>851,193</u>            |
| Governmental Activities Total        |                              |                  |                   |                           |
| Capital Assets--Net of Depreciation  | <u>\$864,124</u>             | <u>\$45,399</u>  | <u>\$14,505</u>   | <u>\$885,903</u>          |
| <b>Business-Type Activities</b>      |                              |                  |                   |                           |
| Capital Assets Being Depreciated     |                              |                  |                   |                           |
| Buildings and Improvements           | \$ 411,992                   |                  |                   | \$ 411,992                |
| Water Mains                          | 436,774                      |                  |                   | 436,774                   |
| Wells                                | 165,859                      |                  |                   | 165,859                   |
| Water Tower                          | 153,170                      |                  |                   | 153,170                   |
| Sewer Mains                          | <u>664,241</u>               | <u></u>          | <u></u>           | <u>664,241</u>            |
| Subtotal                             | <u>1,832,036</u>             | <u></u>          | <u></u>           | <u>1,832,036</u>          |
| Less Accumulated Depreciation for    |                              |                  |                   |                           |
| Buildings and Improvements           | 14,421                       | 8,541            |                   | 22,962                    |
| Water Mains                          | 192,851                      | 8,735            |                   | 201,586                   |
| Wells                                | 13,846                       | 5,529            |                   | 19,375                    |
| Water Tower                          | 59,691                       | 3,063            |                   | 62,754                    |
| Sewer Mains                          | <u>409,789</u>               | <u>13,285</u>    | <u></u>           | <u>423,074</u>            |
| Subtotal                             | <u>690,598</u>               | <u>39,153</u>    | <u></u>           | <u>729,751</u>            |
| Net Capital Assets Being Depreciated | <u>1,141,438</u>             | <u></u>          | <u>39,153</u>     | <u>1,102,285</u>          |
| Business-Type Activities Total       |                              |                  |                   |                           |
| Capital Assets--Net of Depreciation  | <u>\$1,141,438</u>           | <u></u>          | <u>39,153</u>     | <u>\$1,102,285</u>        |

Depreciation expense was charged to programs of the primary government as follows:

|                          |          |
|--------------------------|----------|
| Governmental Activities  |          |
| General Government       | \$14,505 |
| Public Works             | \$ 9,105 |
| Business-Type Activities |          |
| Sewer                    | \$25,868 |
| Water                    | \$13,285 |

VILLAGE OF LYONS  
NOTES TO THE FINANCIAL STATEMENTS  
February 28, 2005

**NOTE 6--LONG TERM DEBT**

**Revenue Bonds Payable--Series 2000-B--(Bond Authority)**

\$425,000 of bonds issued in 2001 to finance water system improvements within the Village. Principal payments are due annually on November 1 with interest payable on May 1 and November 1 as follows:

| Year Ending   |                  |                  |
|---------------|------------------|------------------|
| <u>28-Feb</u> | <u>Principal</u> | <u>Interest</u>  |
| 2006          | \$ 10,000        | \$ 20,625        |
| 2007          | 10,000           | 20,160           |
| 2008          | 10,000           | 19,690           |
| 2009          | 10,000           | 19,215           |
| 2010          | 10,000           | 18,735           |
| Thereafter    | <u>335,000</u>   | <u>179,844</u>   |
| Totals        | <u>\$385,000</u> | <u>\$278,269</u> |

**Revenue Bonds Payable (GMAC)**

Principal payments are due annually on January 1 with interest payable on January 1 and July 1. Those bonds maturing in 1982 and thereafter are subject to redemption prior to maturing after January 1, 1981, at the option of the Village in inverse numerical order on any interest date at par plus accrued interest to the date of redemption.

| Year Ending   |                  |                 |
|---------------|------------------|-----------------|
| <u>28-Feb</u> | <u>Principal</u> | <u>Interest</u> |
| 2006          | \$ 16,000        | \$ 6,400        |
| 2007          | 17,000           | 5,600           |
| 2008          | 18,000           | 4,750           |
| 2009          | 18,000           | 3,850           |
| 2010          | 19,000           | 2,950           |
| 2011          | 20,000           | 2,000           |
| 2012          | <u>20,000</u>    | <u>1,000</u>    |
|               | <u>\$128,000</u> | <u>\$26,550</u> |

**Water System Installment Purchase Debt**

Principal payments are due annually on May 1 with interest payable on May 1 and November 1 as follows:

| Year Ending   |                  |                 |
|---------------|------------------|-----------------|
| <u>28-Feb</u> | <u>Principal</u> | <u>Interest</u> |
| 2006          | \$ 6,000         | \$ 5,500        |
| 2007          | 7,000            | 5,093           |
| 2008          | 7,000            | 4,656           |
| 2009          | 7,000            | 4,218           |
| 2010          | 8,000            | 3,750           |
| Thereafter    | <u>56,000</u>    | <u>10,938</u>   |
| Total         | <u>\$91,000</u>  | <u>\$34,156</u> |

**NOTE 7--EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**Plan Description**--The Village participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at:

1134 Municipal Way  
Lansing, Michigan 48917

**Funding Policy**--The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's employees and requires a contribution from the employees of 4 percent and from the employer of 7.43 percent of gross wages for General employees.

VILLAGE OF LYONS  
NOTES TO THE FINANCIAL STATEMENTS  
February 28, 2005

**Annual Pension Costs** --For year ended 2004, the Village's annual pension cost of \$5,117 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include: (i) an 8 percent investment rate of return; and (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll contributions over a period of years. The standard amortization period to fund the unfunded liability is 30 years for positive unfunded liabilities, and 10 years for negative unfunded liabilities. Three-year trend information (only two years are included since the plan was established in March 2003) as of December 31, 2004 follows:

|   | <u>2003</u> | <u>2004</u> |
|---|-------------|-------------|
| Annual Pension Cost                     |             | \$5,117     |
| Actuarial Value of Assets               | \$10,166    | \$21,930    |
| Actuarial Accrued Liability             | \$1,473     | \$23,071    |
| Unfunded AAL                            | \$(8,693)   | \$1,141     |
| Funded Ratio                            | 690%        | 95.1 %      |
| Covered Payroll                         | \$86,863    | \$83,786    |
| UAAL as a Percentage of Covered Payroll | 0%          | 1%          |

**NOTE 8--OTHER POST-EMPLOYMENT BENEFITS**

The Village has elected to provide post-employment health benefits to a retiree. The Village pays the full cost of coverage for these benefits. Currently, one retiree is eligible for post-employment health benefits. For the fiscal year ended February 28, 2005, the Village made payments for post-employment health benefit premiums of \$1,302. The Village obtains health care coverage through private insurers.

**NOTE 9--RISK MANAGEMENT**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Village is insured with the Michigan Municipal Liability and Property Pool. Workmen's compensation coverage is acquired from the Accident Fund of Michigan.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982. The Village pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member payments determined necessary by the Pool Board. During fiscal year end February 28, 2005 and the previous two years, there were no settlements that exceeded the respective insurance coverage. In addition, there has been no reduction in insurance coverage from the prior year.

**NOTE 10--CONTINGENT LIABILITIES**

The Village, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The Village's attorney and insurance carrier estimate that the potential claims against the Village, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Village.

**NOTE 11--PRIOR PERIOD ADJUSTMENT**

A certain error, resulting in the understatement of the Water Fund and Sewer Fund retained earnings in the prior year, was corrected during fiscal year ended February 28, 2005. The effect of that error is as follows:

|  | <u>Water</u>          | <u>Sewer</u>        |
|--|-----------------------|---------------------|
| Retained Earnings at March 1, 2004, as previously reported | \$ 316,386.19         | \$401,361.52        |
| February 28, 2004 capital assets were reported incorrectly | 1,188,602.17          | 104.72              |
| Retained Earnings-Restated at March 1, 2004                | <u>\$1,504,988.36</u> | <u>\$401,466.24</u> |

Village of Lyons  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended February 28, 2005

Exhibit 8

|                                      | Budgeted Amounts |            | Actual<br>Amounts | Variance<br>Favorable<br>(Unfavorable) |
|--------------------------------------|------------------|------------|-------------------|--|
|                                      | Original         | Final      |                   |  |
| Budgetary Fund Balance-Beginning     |                  |            | \$ 202,795        | \$ 202,795                             |
| Resources (Inflows)                  |                  |            |                   |  |
| Taxes                                | \$ 81,500        | \$ 85,600  | 90,647            | 5,047                                  |
| Licenses and Permits                 | 125              | 200        | 200               | (0)                                    |
| State Grants                         | 75,000           | 85,800     | 86,179            | 379                                    |
| Interest                             | 1,500            | 4,300      | 4,666             | 366                                    |
| Rentals                              |                  | 26,765     | 30,335            | 3,570                                  |
| Other Revenue                        |                  | 410        | 6,267             | 5,857                                  |
| Transfer In                          |                  | 5,000      | 5,000             | -                                      |
| Amounts Available for Appropriation  | 158,125          | 208,075    | 426,089           | 218,014                                |
| Charges to Appropriations (Outflows) |                  |            |                   |  |
| General Government                   |                  |            |                   |  |
| Village Council                      | 9,700            | 25,820     | 30,061            | (4,241)                                |
| President                            | 3,400            | 3,560      | 3,554             | 6                                      |
| Clerk                                | 9,900            | 32,215     | 36,507            | (4,292)                                |
| Treasurer                            | 6,300            | 8,097      | 8,536             | (439)                                  |
| Administration                       | 18,150           | 29,485     | 12,149            | 17,336                                 |
| Elections                            | 325              | 1,086      | 1,082             | 5                                      |
| Building and Grounds                 | 46,710           | 78,480     | 73,369            | 5,111                                  |
| Public Safety                        |                  |            |                   |  |
| Fire Department                      | 2,500            | 2,150      | 1,639             | 511                                    |
| Health and Welfare                   |                  |            |                   |  |
| Ambulance                            | 2,500            | 6,550      | 7,367             | (817)                                  |
| Recreation and Culture               |                  |            |                   |  |
| Parks                                | 400              | 830        | 804               | 26                                     |
| Other Functions                      | 7,600            |            |                   |  |
| Insurance & Bonds                    | 12,000           | 13,325     | 13,314            | 11                                     |
| Retirement                           | 6,500            |            | 5,117             | (5,117)                                |
| Capital Outlay                       |                  |            |                   |  |
| Capital Outlay                       | 16,100           | 46,200     | 46,773            | (573)                                  |
| Transfers Out                        |                  | 5,000      |                   | 5,000                                  |
| Total Charges to Appropriations      | \$ 142,085       | \$ 252,798 | 240,271           | 12,527                                 |
| Budgetary Fund Balance-Ending        |                  |            | \$ 185,818        | \$ 185,818                             |

Village of Lyons  
 Budgetary Comparison Schedule  
 Major Street Fund  
 For the Year Ended February 28, 2005

Exhibit 9

|                                      | Budgeted Amounts |             | Actual    | Variance                   |
|--------------------------------------|------------------|-------------|-----------|----------------------------|
|                                      | Original         | Final       | Amounts   | Favorable<br>(Unfavorable) |
| Budgetary Fund Balance-Beginning     |                  |             |           |                            |
| Resources (Inflows)                  |                  |             |           |                            |
| State Grants                         | \$ 52,887        | \$ 56,000   | \$ 55,672 | \$ (328)                   |
| Interest and Rentals                 | 600              | 1,100       | 1,317     | 217                        |
| Other Revenue                        | 1,600            | 1,600       | 1,679     | 79                         |
| Amounts Available for Appropriation  | 55,087           | 58,700      | 58,668    | (32)                       |
| Charges to Appropriations (Outflows) |                  |             |           |                            |
| Public Works                         |                  |             |           |                            |
| Street Department                    |                  |             |           |                            |
| Road Construction                    | 5,000            | 5,000       | 4,239     | 761                        |
| Road Maintenance                     | 31,000           | 54,550      | 41,567    | 12,983                     |
| Winter Maintenance                   |                  | 9,050       | 6,951     | 2,099                      |
| Roadside Parks                       |                  | 1,825       | 992       | 834                        |
| Non-Motorized                        |                  | 5           | 4         | 1                          |
| Traffic Services                     | 300              | 545         | 393       | 152                        |
| Administration                       | 1,200            | 1,500       | 1,434     | 66                         |
| Transfers Out                        |                  |             |           |                            |
| Total Charges to Appropriations      | 37,500           | 72,475      | 55,579    | 16,896                     |
| Budgetary Fund Balance-Ending        | \$ 17,587        | \$ (13,775) | \$ 3,089  | \$ 16,864                  |

Village of Lyons  
 Budgetary Comparison Schedule  
 Local Street Fund  
 For the Year Ended February 28, 2005

Exhibit 10

|                                      | Budgeted Amounts |           | Actual    | Variance                   |
|--------------------------------------|------------------|-----------|-----------|----------------------------|
|                                      | Original         | Final     | Amounts   | Favorable<br>(Unfavorable) |
| Budgetary Fund Balance-Beginning     |                  |           | \$ 39,370 | \$ 39,370                  |
| Resources (Inflows)                  |                  |           |           |                            |
| State Grants                         | \$ 20,966        | \$ 22,000 | 22,154    | 154                        |
| Interest and Rentals                 | 500              | 130       | 143       | 13                         |
| Transfers In                         | 1,600            | 1,600     | 1,679     | 79                         |
| Amounts Available for Appropriation  | 23,066           | 23,730    | 63,345    | 39,536                     |
| Charges to Appropriations (Outflows) |                  |           |           |                            |
| Public Works                         |                  |           |           |                            |
| Street Department                    |                  |           |           |                            |
| Road Maintenance                     | 3,000            | 36,500    | 39,783    | (3,283)                    |
| Winter Maintenance                   |                  | 5,825     | 4,288     | 1,537                      |
| Traffic Services                     | 250              | 420       | 268       | 152                        |
| Administration                       | 20,250           | 16,250    | 1,300     | 14,950                     |
| Total Charges to Appropriations      | 23,500           | 58,995    | 45,640    | 13,355                     |
| Budgetary Fund Balance-Ending        | \$ -             | \$ -      | \$ 17,706 | \$ 17,706                  |



Village of Lyons  
Combining Balance Sheet  
Non-Major Governmental Funds  
February 28, 2005

Exhibit 11

|  | Special Revenue Funds |                      |              | Total Nonmajor<br>Governmental<br>Funds |
|--|-----------------------|----------------------|--------------|---|
|  | Major Street<br>Fund  | Local Street<br>Fund | DDA<br>Fund  |   |
| <b>Assets</b>                            |                       |                      |              |   |
| Cash                                     | \$ 77,150             | \$ 13,894            | \$ 45        | \$ 91,089                               |
| Due From State                           | 9,568                 | 3,811                |              | 13,380                                  |
| <b>Total Assets</b>                      | <u>86,718</u>         | <u>17,706</u>        | <u>45</u>    | <u>104,468</u>                          |
| <b>Liabilities</b>                       |                       |                      |              |   |
| Accounts Payable                         | (0)                   |                      |              | (0)                                     |
| <b>Total Liabilities</b>                 | <u>(0)</u>            | <u>-</u>             | <u></u>      | <u>(0)</u>                              |
| <b>Fund Equity</b>                       |                       |                      |              |   |
| Fund Balance                             | 86,718                | 17,706               | 45           | 104,469                                 |
| <b>Total Liabilities and Fund Equity</b> | <u>\$ 86,718</u>      | <u>\$ 17,706</u>     | <u>\$ 45</u> | <u>\$ 104,468</u>                       |

Village of Lyons  
Combining Statement of Revenues, Expenditures  
And Changes in Fund Balance  
Governmental Funds  
For the Year Ended February 28, 2005

Exhibit 12

|   | Major Street<br>Fund | Local Street<br>Fund | DDA<br>Fund  | Total<br>Governmental<br>Funds |
|---|----------------------|----------------------|--------------|--------------------------------|
| <b>Revenues</b>   |                      |                      |              |                                |
| State Grants  | \$ 55,672            | \$ 22,154            |              | \$ 77,826                      |
| Interest on Investments                                     | 1,317                | 143                  |              | 1,460                          |
| Other Revenue   | 1,679                | 1,679                | \$ 45        | 3,404                          |
| <b>Total Revenues</b>                                       | <b>58,668</b>        | <b>23,976</b>        | <b>45</b>    | <b>82,689</b>                  |
| <b>Expenditures</b>   |                      |                      |              |                                |
| <b>General Government</b>                                   |                      |                      |              |                                |
| Administration  | 1,434                | 1,300                |              | 2,734                          |
| Construction  | 4,239                |                      |              | 4,239                          |
| Maintenance   | 41,567               |                      |              | 41,567                         |
| Roadside Parks  | 992                  |                      |              | 992                            |
| Non Motorized   | 4                    |                      |              | 4                              |
| Streets   |                      | 39,783               |              | 39,783                         |
| Winter Mainyenance  | 6,951                | 4,288                |              | 11,239                         |
| Traffic Services  | 393                  | 268                  |              | 661                            |
| <b>Total Expenditures</b>                                   | <b>55,579</b>        | <b>45,640</b>        |              | <b>101,219</b>                 |
| <b>Excess (deficiency) of Revenues<br/>vs. Expenditures</b> | <b>3,089</b>         | <b>(21,664)</b>      | <b>45</b>    | <b>(18,530)</b>                |
| <b>Other Financing Sources (Uses)</b>                       |                      |                      |              |                                |
| Transfers In (Out)  |                      |                      |              | -                              |
| <b>Total Other Financing Sources</b>                        | <b>-</b>             | <b>-</b>             |              | <b>-</b>                       |
| <b>Net Change in Fund Balances</b>                          | <b>3,089</b>         | <b>(21,664)</b>      | <b>45</b>    | <b>(18,575)</b>                |
| Fund Balances - Beginning:                                  | 83,629               | 39,370               |              | 122,999                        |
| Fund Balances - Ending:                                     | <b>\$ 86,718</b>     | <b>\$ 17,706</b>     | <b>\$ 45</b> | <b>\$ 104,469</b>              |

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November 23, 2005

Lyons Village Council  
212 Water Street  
P.O. Box 175  
Lyons, Michigan 48851-0175

Dear Council Members:

I was engaged to audit the financial statement of the Village of Lyons for the year ended February 28, 2005.

In planning and performing my audit of the financial of the Village of Lyons for the year ended February 28, 2005, I considered the Village's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Village of Lyons is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

I noted certain matters involving the internal control structure and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These conditions are more fully explained in the attached report of comments and recommendations.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that error or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the information of management and other regulatory agencies. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Richard L. Baldermann, CPA

Village of Lyons  
Comments And Recommendations  
February 28, 2005

**OTHER REPORTABLE CONDITIONS**

Although the following are not considered material weaknesses in the internal control structure, my audit disclosed certain other reportable conditions that I wish to point out for consideration by the management of the Village.

**Expenditure Documentation**

In my examination of expenditures I found several instances of discrepancies as follows:

- Missing or inadequate documentation;
- No administrative approval; and
- No accounting codes noted.

Justification for payment of village funds requires that all payments be supported by original documentation. Copies of bills and payment of a monthly invoice is not adequate. Administrative approval is necessary to verify that goods and services were received at agreed upon prices and notation of the appropriate account number.

I recommend that all payments be supported by original and complete documentation and appropriate administrative approval is present.

**Adjustments to Customer Billings**

There were several adjustments to customer bills and to accounts receivable made without independent review and approval. While most of the adjustments appear to be routine, independent review is necessary to assure the integrity of the process.

I recommend that independent review and approval be instituted on all bill adjustments and adjustments to the accounts.

**NONCOMPLIANCE WITH STATE STATUTES**

My examination revealed the following instances of noncompliance with State Statutes.

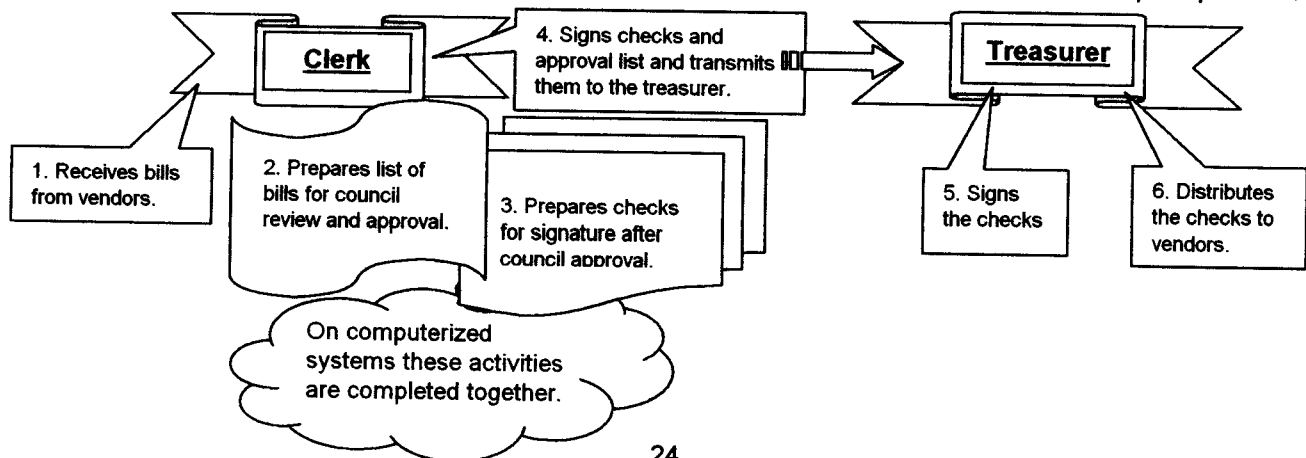
**Approval to Pay Claims**

I found that the Village Council approves the previous months bill listing at each Council meeting. MCL 64.6 states in part:

(2) Claims against the village shall be filed with the clerk for adjustment. After examination, the clerk shall report the claims, with the accompanying vouchers and counterclaims of the village, and the true balance, to the council for allowance. After the claims are allowed by the council, the clerk shall present check disbursement authorizations to the treasurer for payment of the claims, designating the fund from which payment is to be made

The authority for the Treasurer to issue a check is the check disbursement authorizations. Current authorized procedure is the two-signature check. The Clerk's signature (or Deputy Clerk) satisfies the requirement of a check disbursement authorization and the Treasurer's signature (or Deputy Treasurer) issues the check.

I recommend that the Village comply with statutory requirements. The following flow chart demonstrates the required procedure.



Village of Lyons  
Comments And Recommendations  
February 28, 2005

**Excess of Expenditures Over Appropriations in Budgeted Funds**

During the fiscal year ended February 28, 2005 the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

|                                 | <u>Budgeted Amounts</u> |              | <u>Actual</u>  | <u>Favorable</u>     |
|---------------------------------|-------------------------|--------------|----------------|----------------------|
|                                 | <u>Original</u>         | <u>Final</u> | <u>Amounts</u> | <u>(Unfavorable)</u> |
| <b><u>General Fund</u></b>      |                         |              |                |                      |
| General Government              |                         |              |                |                      |
| Village Council                 | 25,820                  | 25,820       | 30,061         | (4,241)              |
| Clerk                           | 32,215                  | 32,215       | 36,507         | (4,292)              |
| Treasurer                       | 8,097                   | 8,097        | 8,536          | (439)                |
| Building and Grounds            | 72,080                  | 72,080       | 73,369         | (1,289)              |
| Ambulance                       | 6,550                   | 6,550        | 7,367          | (817)                |
| Other Functions                 |                         |              |                |                      |
| Retirement                      |                         |              | 5,117          | (5,117)              |
| Total Charges to Appropriations | 204,448                 | 204,448      | 240,271        | (35,823)             |
| <b><u>Local Street Fund</u></b> |                         |              |                |                      |
| Public Works                    |                         |              |                |                      |
| Street Department               |                         |              |                |                      |
| Road Maintenance                | 36,500                  | 36,500       | 39,783         | (3,283)              |

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.), provides that:

- A deviation from the original general appropriations act shall not be made without amending the general appropriations act; and
- The local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined.

I recommend that the Village Council amend the budget as soon as a deviation is apparent.